

Tax News

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Tax preparers with Spanish-speaking clients

We need your help

FTB is part of the Multilingual Initiative, a committee represented by several states that are members of the Federation of Tax Administrators (FTA), in collaboration with the IRS. The committee's purpose is to identify services and resources that will increase Spanish-speaking constituents' participation in income tax e-filing. To get this needed information we are conducting a survey.

Why it is important to participate

Your survey answers will help:

- Identify possible shortcomings in existing services.
- Deliver improvements to existing services.
- Suggest new outreach programs.

With this information, we can develop solutions that will ultimately help you offer more effective resources and services to your Spanish-speaking clients.

Please take a moment to complete the electronic survey by [clicking here](#).

The survey will only be available through **May 4**, so your prompt assistance is appreciated. Thank you for sharing your time, knowledge, and expertise!

If you have any technical questions on the survey tools, please contact us at:

- (505) 827-0464
- NMWebFile@state.nm.us

What is FTB doing about questionable tax preparers?

The FTB 2006 Strategic Tax Gap Plan, and its supporting enforcement provisions, provides a framework for addressing the issue of questionable tax preparers. More than 65 percent of California taxpayers use tax professionals to prepare and e-file their tax returns. FTB is making professional practitioner misconduct unprofitable by identifying problem practitioners, auditing the returns they prepare, and assessing penalties.

Under California law preparers must be licensed or registered to prepare income taxes for a fee - otherwise, they are preparing returns illegally. CPAs, public accountants, enrolled agents, and attorneys are licensed by either the state or federal government, and may charge a tax preparation fee. All other tax preparers who charge a fee for their services

must be registered with the California Tax Education Council, or CTEC. CTEC is a nonprofit organization established in 1997 by the California Legislature to protect the public, and promote competent tax preparation. Legislation passed in 2005 (Senate Bill 229 (Stat. 2005, Chap. 658)) designated FTB the enforcement arm of CTEC.

CTEC registration and requirements

Paid tax preparers not already regulated by the California Board of Accountancy, California State Bar, or the IRS' Office of Professional Responsibility must meet the following requirements:

- Sixty hours of training by a CTEC approved provider.
- \$5,000 bond.
- \$25 registration/annual renewal fee.
- Twenty hours of annual continuing education.

Registration enforcement

Tax preparers who charge fees for their services must be registered with CTEC, or they are subject to immediate enforcement of the Tax Preparer Penalty. The initial penalty is \$2,500, and subsequent penalties are \$5,000. To identify unregistered preparers, FTB staff:

- Visit preparers to find and identify those not registered.
- Follow up on complaints filed with CTEC or FTB.
- Follow up on preparers who are disbarred by the California Bar, become unenrolled by the IRS, or decertified by the California Board of Accountancy.
- Use internal information to identify potentially unregistered preparers.

FTB strategies for dealing with questionable preparers

We use modeling techniques to spot tax return trends, patterns in claimed credits, and overstatement of deductions on Schedules A and C. Penalties are assessed as warranted.

Here are some of our specific initiatives:

- We increased staff to verify the refundable Child and Dependent Care Expenses Credit to prevent and recover fraudulent claims.
- We verify withholding claims to prevent and recover fraudulent claims.
- We participate as a member of the Federation of Tax Administrator's (FTA) Suspicious Filer Group. California is one of 35 states that participate in the FTA's Suspicious Filer Information Exchange Program.
- We worked jointly with the IRS to:
 - Develop a brochure on "How to Select an Income Tax Preparer."
 - Create a return preparer selection model using FTB and IRS data.

Calculator for earnings withholding orders now online

Do your clients need help figuring out how much money to send FTB when they receive Earnings Withholding Orders for Taxes (EWOTS)? Try the EWOT [calculator](#) now available on our [Website](#). Employers can use the calculator to determine the correct amount to garnish from an employee's paycheck. Employees who are having their wages garnished can also use the calculator to verify that the correct amount is being withheld.

Employers who process earnings withholding order wage garnishments can also use the calculator for:

- Vehicle Registration Collections
- Court-Ordered Debt

Bay area counties lead California in 2005 median income

FTB's statistics on the statewide median income for all personal income tax returns show an increase of 2.7 percent in 2005, and 4.1 percent for joint returns.

Four Bay Area counties again top California's 2005 median income [report](#). For the past 34 years, the counties of Contra Costa, Marin, San Mateo, and Santa Clara have consistently reported the highest median incomes.

Median income is the point where one-half of the tax returns are above and one-half are below the midpoint of the range of income values. Median income represents the income reported by a typical California individual or couple.

Taxpayers filed 14.8 million 2005 California income tax returns with the FTB, reporting slightly more than \$1 trillion of adjusted gross income, minus specific tax deductions before Federal Schedule A itemized deductions. This is an increase of 4.2 percent over 2004 figures.

Marin County still has the highest median income for joint returns, reporting \$107,856 - an increase of 8 percent from [2004](#). San Mateo County ranked second with \$89,672 (4.3 percent increase), Santa Clara County ranked third with \$89,618 (4.6 percent increase), and Contra Costa County ranked fourth with \$83,605 (3.5 percent increase).

Los Angeles County taxpayers filed 25.6 percent of all 2005 income tax returns in California. They reported median incomes of \$29,551 for all returns (ranking 39), and \$54,583 for joint returns (ranking 32).

The largest percentage gain in median income for all counties was 9.4 percent, reported in Yuba County. For joint filed returns the largest increase was also in Yuba County, showing

an 11.3 percent increase. Alpine County was the 2004 leader in median income percentage gain, and ranked seventh in 2005.

Curious about your county's position in the ranking? Check out the [2005 report](#).

Inside FTB

A couple of unexpected and unwelcome events affecting return filing occurred in April: The tragedy at Virginia Tech on April 16, and the severe storm in the nation's northeast. In both cases, our actions correspond with IRS actions, to give tax relief to taxpayers and tax preparers affected by these events.

Virginia Tech tragedy

FTB followed the IRS in granting a six-month filing and payment extension to those affected by the tragic shootings on April 16, 2007, at Virginia Tech in Blacksburg, Virginia. The relief applies to the victims, their families, emergency responders, university students, and employees. Taxpayers in these groups will have until October 15, 2007, to file returns, and make payments associated with their 2006 individual tax returns due April 17, 2007. Those who qualify for this extension will have no filing and payment penalties, as long as they file and pay by October 15, 2007.

Special tax relief for victims of April 16 northeast storms

On April 17, 2007, we announced that we would provide special tax relief for taxpayers in the areas hardest hit by the April 16 storm in several northeastern states.

On April 26, the IRS extended the filing date to file income tax returns to **June 25** for those hardest hit by the April 16 storm, and FTB is following the federal postponement to June 25. For more information, see our April 26 [press release](#), [IRS Notice 2007-89](#), and [IRS Notice 2007-92](#).

Disaster victims receive free copies of tax returns, and can obtain copies by completing Form [FTB 3516, Request for Copy of Tax Return](#). Taxpayers who e-file should follow software instructions in entering disaster information.

To learn more about state disaster losses, refer to publication [FTB 1034, Disaster Loss](#) at www.ftb.ca.gov, or [IRS 547](#), Casualties, Disasters, and Thefts at www.irs.gov.

If your clients can't pay their taxes, they can request a payment plan online. Those who owe less than \$25,000, and can repay it within five years will generally qualify.

Criminal Corner

We are committed to closing California's \$6.5 billion tax gap, defined as the difference between tax that is owed, and tax that is paid. Our special agents work cooperatively with law enforcement agencies throughout California to uncover illegal behaviors that contribute to the tax gap. These include underreporting income, overstating deductions, failing to file returns, failing to pay taxes due, and making illegal cash payments to employees.

Tax fraud is not a victimless crime. You can report suspected tax fraud by calling FTB at (800) 540-3453.

Former CFO guilty of grand theft, filing false income tax returns

On March 27, 2007, the former chief financial officer of a Los Angeles-based medical firm was sentenced to four years in state prison on charges of grand theft and filing false state income tax returns.

Emmanuel A. Udeobong, 48, was employed by New World Medical Group, Inc. According to court documents, Udeobong issued false claims to Medi-Cal and Medicare between 1999 and 2001, and received more than \$418,000 in fraudulent payments. Because the theft involved more than \$150,000, Udeobong was also sentenced to an additional two years in state prison for a white collar crime enhancement, and is ineligible for probation since his theft involved more than \$100,000. His two sentences will run concurrently.

In addition, Udeobong failed to claim more than \$267,541 in income on his state income tax returns. All income is taxable including income from illegal sources. Restitution to the FTB of more than \$23,900 representing the unpaid tax, penalties, interest, and the cost of the investigation was also ordered.

The conviction was the result of a joint investigation between Attorney General's Office, the Department of Justice Medi-Cal Fraud and Elder Abuse, and the FTB.

Victorville man sentenced to prison

A Victorville man was sentenced on April 5, 2007, to three years in state prison for filing a false state income tax return, insurance fraud, and grand theft.

Farrell Cobbs, 43, a plant manager at a gypsum building materials company, received more than \$700,000 from fraudulent insurance claims, and failed to claim them on his state income tax return. According to court documents, Cobbs filed fraudulent insurance claims with two insurance companies for medical injuries he did not receive. Cobbs learned about the scheme from a friend, who is currently in prison on similar charges. He deposited the funds into his personal checking account, and used the money on entertainment and gambling in Las Vegas.

Restitution of more than \$52,300, representing the unpaid tax, penalties, interest, and the cost of the investigation, was also ordered.

The buzz on big business

Streamlining corporate audits

The purpose of an audit is to effectively and efficiently determine the correct amount of tax based on an analysis of relevant tax statutes, regulations, and case law as applied to the taxpayer's facts. Experience shows the best results are achieved through cooperation, effective communications, setting goals, and sticking to the goals throughout the audit process.

We conduct audits on corporate entities in accordance with Audit Regulation 19032, to ensure we work together cooperatively during the audit, and complete that audit as soon as possible. Key tools for accomplishing this include the opening conference, audit plan, information document requests, and Audit Issue Presentation Sheets.

Opening conference

The opening conference establishes the necessary groundwork for conducting an effective, efficient audit. It opens lines of communication, and helps build a partnership between the auditor and you, the corporation's representative. During the opening conference you and the auditor will become familiar with the audit participants, agree on a general audit plan, discuss audit processes and procedures, agree upon expected timeframes, and discuss other relevant items as necessary.

Audit plan

The audit plan establishes open lines of communication, and promotes understanding of commitments made, and agreements reached. The audit plan is a tool providing a road map of how the audit began, how the audit is progressing, where the audit is going. It also identifies key potential audit issues. It helps you and the auditor establish a partnership relationship, and work together to resolve problems as early as possible in the audit process. The audit plan helps ensure an effective, efficient audit that is less burdensome, less costly, and less intrusive.

We encourage you to participate in developing the audit plan. By involving you in the plan's development:

- Both parties will more efficiently manage the fact gathering and analysis process.
- You will be able to anticipate deadlines and provide alternative solutions for resolving issues, such as using alternative documents, and using agreed sampling methods where records are voluminous.

- It should ease any apprehension you may have about what to expect, and foster communication and cooperation in the audit process.
- You will understand that issues included in the audit plan are based on the materiality of the potential adjustment, and balanced with the statutory requirement to determine the correct amount of tax. Materiality of an issue is a “facts and circumstances” test, and is considered throughout the audit.
- You will understand the audit plan is a guide for the examination. It is subject to revision as progress indicates the need for more, less or different work than originally planned.

Information Document Request

The Information Document Request (IDR) is an important tool we use to obtain necessary information. All requests for information are documented on an IDR. We maintain a master IDR Log to track all issued IDRs, and to provide a clear focus for the status of IDRs. We can share copies of the Master IDR Log with you so all parties have a common understanding of the expectations. During the opening conference, the auditor will:

- Discuss the general response timeframes and follow-up process for IDRs. It is important to establish an understanding that a timely completion of the audit is based on meeting the time frames. We will inform you that it is our practice to issue an IDR, one follow-up IDR, and, if necessary, a formal demand for the information. The formal demand will indicate we may apply the failure to furnish information penalty if a timely response is not provided.
- Discuss the general format of the IDR and explain the use of the single question IDR as opposed to single issue IDR. If appropriate, the auditor will ask you if you would like to review the draft IDRs before they are issued.
- Establish who will receive the IDRs, and whom we should contact if we need to obtain additional records or information.

Audit Issue Presentation Sheet

The purpose of the AIPS is to communicate the specific audit issue, the facts that have been developed, the relevant law, and the audit recommendation on the issue. Issuing each AIPS provides the opportunity to conclude and resolve issues on an ongoing basis. The AIPS is an important tool that keeps you fully informed about the audit and the FTB's position on each issue. During the opening conference, the auditor will explain:

- What an Audit Issue Presentation sheet contains.
- That we will issue an AIPS as soon as audit issues are completed. Auditors will not wait until the end of the audit to provide this critical information flow.
- That all adjustments will be explained through use of the AIPS process.

- We request that you respond to the factual write-up as presented in the AIPS. We understand you may disagree with the application or conclusion of the law but at a minimum, we should strive to obtain agreement with the factual understanding.
- The appropriate timeframes for responses.